R41a5-6

The Conference Board

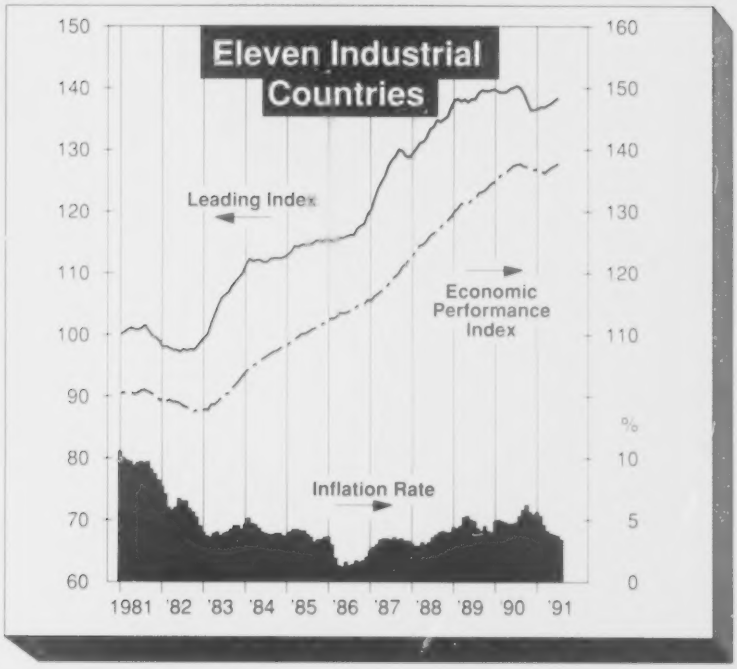
Volume 13, Number 10 October 1991

International Economic Scoreboard

INSIDE:

- **Global Business Cycle Still on Recovery Path**
  - **8 of 11 Countries Show Favorable Signals**
- **Inflation Subsiding in Most Countries**
  - **Uncharacteristically, German Inflation Accelerating**

World Business Cycle



Summary of Growth Rates, Eleven Industrial Countries

	Ten-year Growth Rate	Indexes of Economic Performance Growth Rates *			Leading Business Cycle Indexes Growth Rates *			Current Reading on the Cycle	Latest Month Covered
	1976-86	6 mos. ago	3 mos. ago	Latest month	6 mos. ago	3 mos. ago	Latest month		
Eleven countries	3	0	0	1	-3	-2	1	Recovery underway	July
Ten countries (U.S. excl.)	3	4	3	3	-2	0	-1	Expansion continuing, leaders weak	July
North America (2)	3	-6	-6	-3	-6	-3	3	Recovery underway	July
Europe (4)	2	4	2	3	0	2	2	Expansion continuing	July
Pacific Region (5)	4	5	5	4	-4	-3	-3	Expansion continuing, leaders weak	July
United States	3	-7	-5	-2	-4	-1	3	Recovery underway	Aug.
Canada	3	-7	-4	-2	-8	-4	0	Recession ending	July
West Germany	2	8	6	5	5	2	0	Expansion continuing, leaders weak	July
France	2	5	4	3	1	4	4	Expansion continuing	June/Aug.
United Kingdom	2	-3	-6	-2	-4	0	2	Recession ending, leaders improving	July
Italy	2	4	0	6	-3	-1	1	Expansion continuing	July/June
Japan	4	6	6	6	-4	-4	-5	Expansion continuing, leaders weak	July
Korea, R.O.K.	7	9	8	9	-1	6	9	Expansion continuing	Aug.
Australia	3	-8	-10	-3	-3	0	5	Recession ending, leaders improving	Aug.
New Zealand	2	0	-2	-2	-4	-3	-1	Recession continuing, leaders weak	June/July
Taiwan, R.O.C.	8	4	5	6	2	8	8	Expansion continuing	July

* Ratio of current month's index over the preceding 12 month average, expressed as a compound annual rate.

Copyright © 1991 by The Conference Board, Inc.

The Conference Board, 845 Third Avenue, New York, New York, 10022
The Conference Board Europe, Avenue Louise, 207 - Bte 5, B-1050 Brussels, Belgium
The Conference Board of Canada, 255 Smyth Road, Ottawa, Ontario, KIH-8M7

Overview

Moderate Recovery, Slowing Inflation

The latest business cycle data show further evidence of a worldwide economic recovery. This is true for both the eleven-country leading index, which has moved higher in 6 of the latest 7 months, and the performance index, which has moved higher in each of the latest 4 months.

A year ago we noted that cyclical weakness was concentrated in the five English-speaking countries. Currently, as the chart on the next page shows, all five appear to be on the road to recovery. However, two important economies that were not showing weakness a year ago are questionable now: Germany (see p.7) and Japan (p.9). All in all, eight of the eleven countries covered in this report are showing advances in their leading indexes. Despite this breadth of improvement, the pace of recovery to date appears to be moderate.

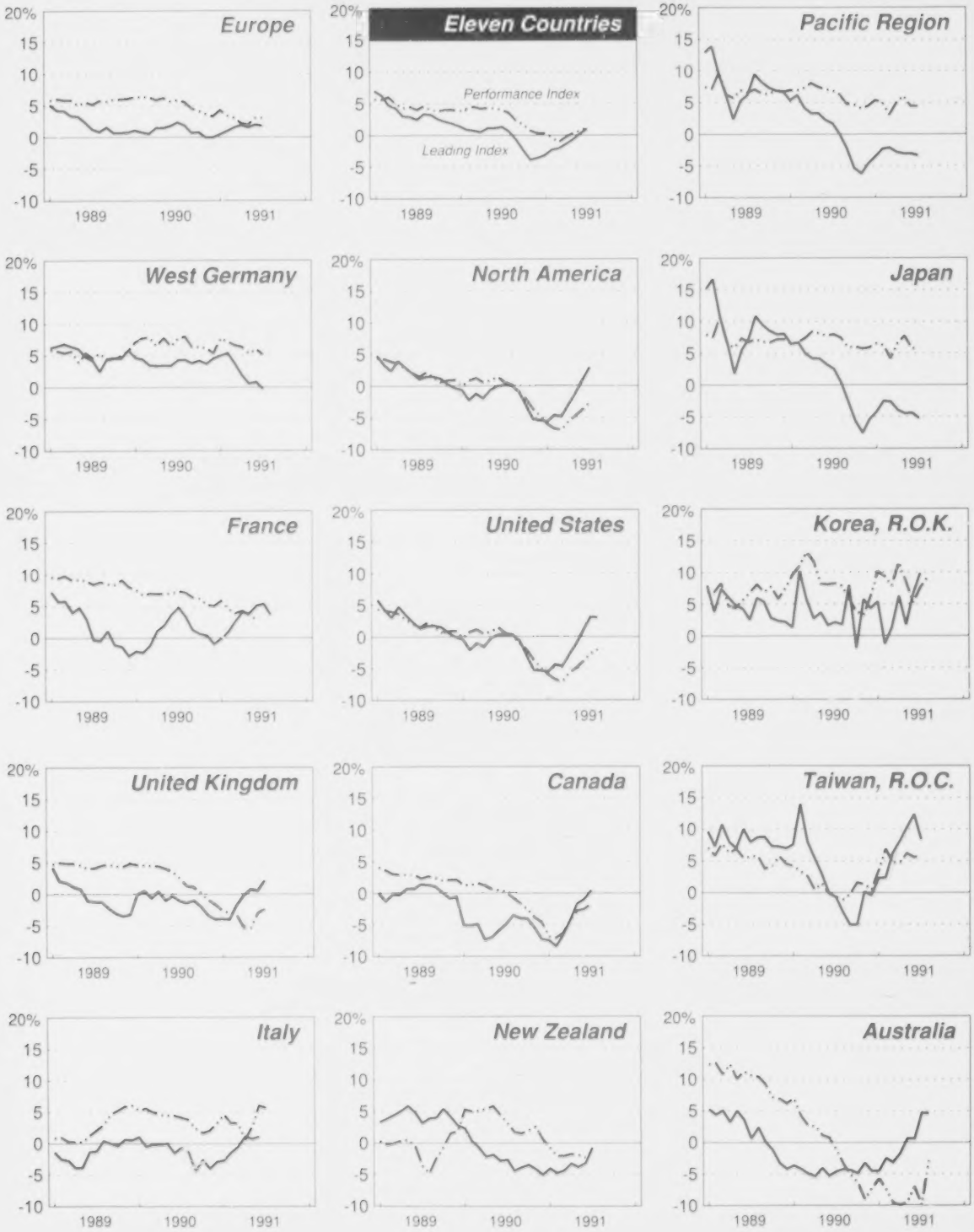
Inflation continues to abate. The rate of advance in consumer prices for the 11-nation composite price index dropped to 3.4 percent in August, its eighth consecutive decline and the slowest rate since 1986.

Summary of Inflation Rates, Eleven Industrial Countries

	Ten-year Inflation Rate 1979-89	*6 mos.* ago*	*3 mos.* ago*	*Latest* month*	*Current Reading on Inflation*	*Latest Month Covered*
		annual rates, percent				
Eleven countries	5.3	5.3	3.9	3.4	Falling	Aug.
Ten countries (U.S. excl.)	5.2	5.0	3.9	3.9	Steady	Aug.
North America (2)	5.6	5.6	3.9	3.2	Falling	Aug.
Europe (4)	6.6	4.9	4.1	4.4	Volatile	Aug.
Pacific Region (5)	3.4	4.7	3.2	2.8	Falling	Aug.
United States	5.5	5.4	3.8	3.0	Falling	Aug.
Canada	6.5	7.5	6.0	4.4	Falling	Aug.
West Germany	2.9	2.7	2.8	4.8	Rising	Aug.
France	7.3	3.5	2.7	2.8	Steady	Aug.
United Kingdom	7.3	6.7	4.6	4.2	Falling	Aug.
Italy	11.2	6.7	6.8	5.9	Falling	Sept.
Japan	2.5	4.4	3.1	2.4	Falling	Aug.
Korea, R.O.K.	8.1	11.1	8.0	9.7	High and Volatile	Aug.
Australia	8.4	7.1	4.4	2.4	Falling	May
New Zealand	11.8	4.5	4.6	2.1	Falling	May
Taiwan, R.O.C.	4.4	3.5	2.5	4.9	Rising	July

* Ratio of current month's index over the preceding 12 month average, expressed as a compound annual rate.

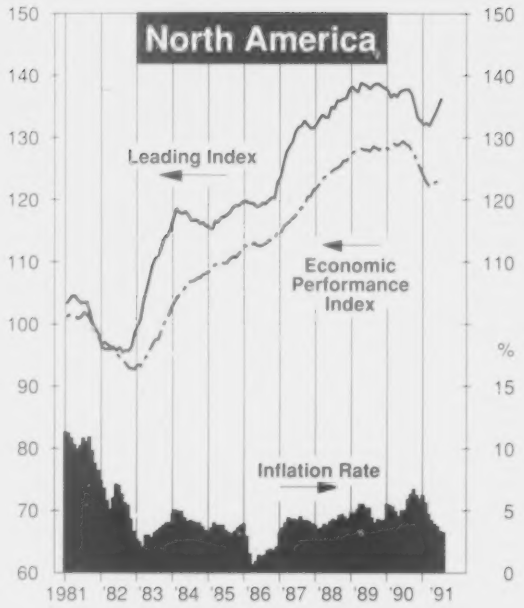
Tracking the Global Cycle

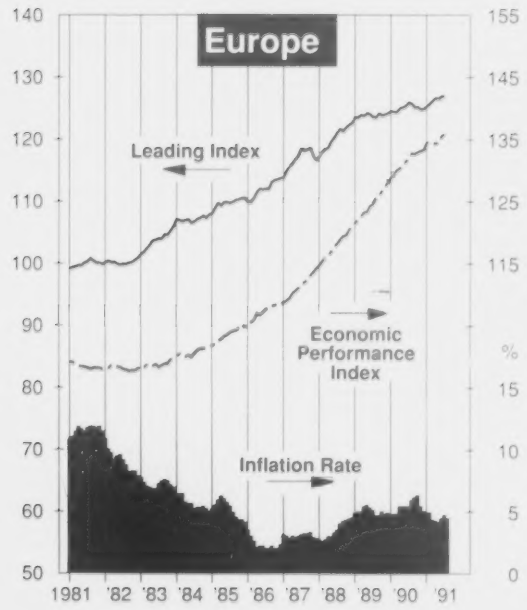


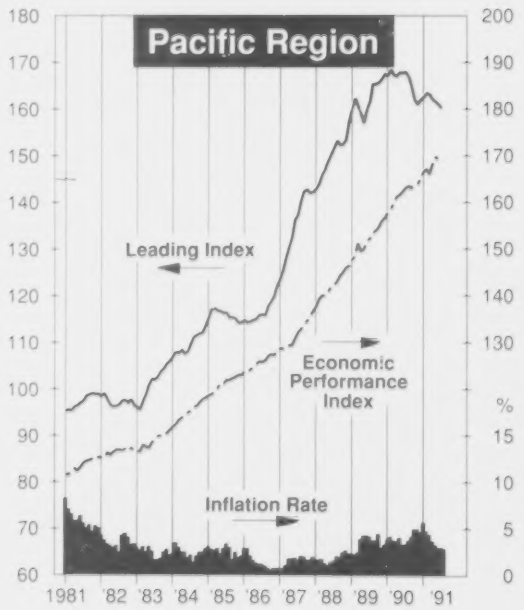
Diverse Patterns

The patterns traced by the three sets of regional indexes across the 1990-91 business cycle are somewhat diverse. The clearest pattern of recession and recovery is found in the North American indexes, where since March the leaders have been rising steadily and sturdily and the performance index has been rising steadily but slowly. Europe shows few signs of having been through a business cycle these past two years (the U.K. was, but not the Continent). The European leading index has been on a very gradual upswing all this year, suggesting that total economic activity (the performance index) will continue to crawl higher. In the Pacific Region (where the indexes are dominated by the Japanese economy), the performance index is still climbing gradually despite the substantial 18-month decline in the leading index.

The inflation threat has eased in all three regions, at least for now. Since January, the rate of increase in the general price level slowed only a bit in Europe, but has been cut almost in half in both North America and the Pacific Region.







On Course

The U.S. indexes provide a classic picture of cyclical recovery. As of last March, the leaders reversed direction smartly. The performance index did likewise, but its advance since then has been very gradual. Doubts about the staying power of the upswing are widespread in America, but hard evidence of a relapse into recession is difficult to find. The pace of expansion, however, may slacken earlier than it usually does. Because the 1990 recession was mild and thus left only a limited gap to fill before production gets back near full utilization of capacity, the normally rapid early recovery pace is not sustainable beyond maybe another 12 months.

The inflation rate slowed further in August, to 3.0 percent. This is the tenth month in a row showing a slower rate.

Inflation Closer to Normal

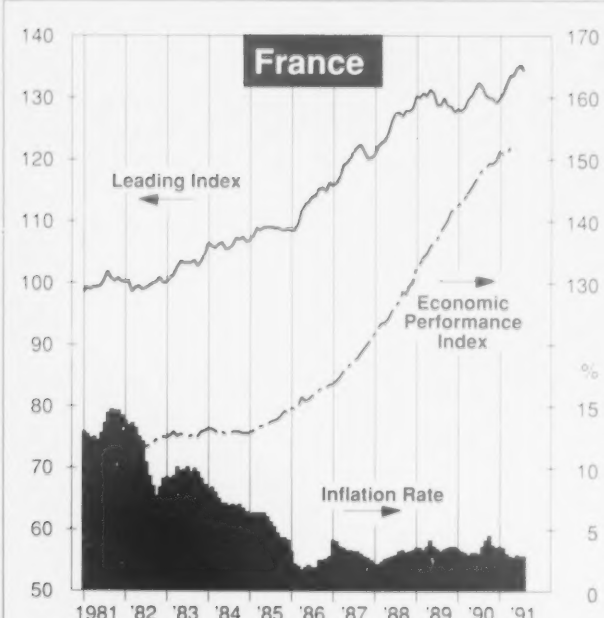
The Canadian indexes look much like those in the United States. The brisk advance in the leaders recently can be traced mostly to gains in the factory workweek and residential building permits.

Inflation, at 4.4 percent, has returned to a more normal rate, after being pushed sharply higher at the beginning of this year by the imposition of a general sales tax.

Uncharacteristic Inflation

After defying the global recession of 1990 by advancing steadily all year, the German leading index has sagged a bit since February. Among the component series, the most pronounced weakness is seen in the data on working hours and insolvent companies. One factor working to slow the economy is the new income-tax surcharge. In response to that drain on purchasing power, automobile registrations fell sharply in August, and some weakness has been reported in other consumer markets.

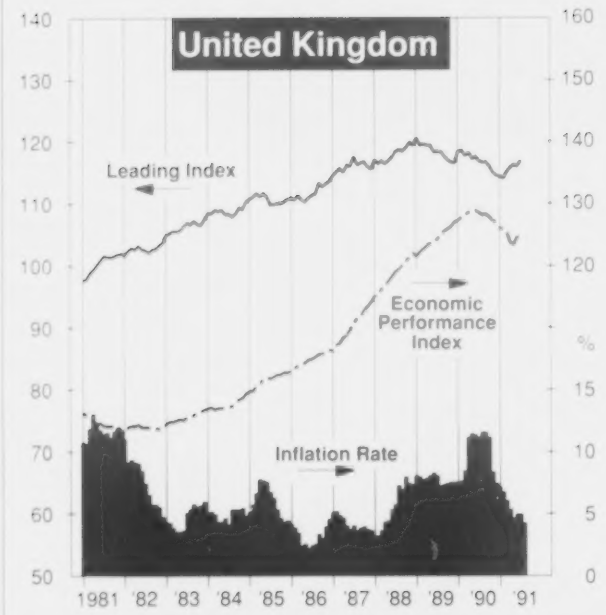
In recent months, the inflation rate has accelerated to a rate—4.8 percent in August—that is uncharacteristically high for Germany.



No Recession, Slow Inflation

After showing some modest weakness in the second half of 1990, the leading index bottomed out in December and since then has climbed a substantial 4 percent through August. Total economic activity never stopped expanding. Thus here, too, no recession.

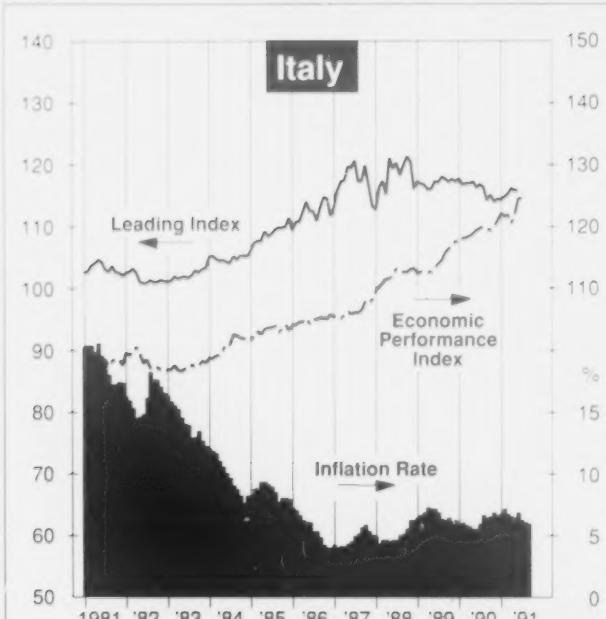
The inflation rate has been steady in recent months. At 2.8 percent, the French have the lowest rate in Europe.

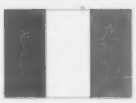


Looking Up

The leading index has been advancing steadily since February, and at a respectable pace, with housing starts, common stock prices, and the ratio of prices to labor costs (a measure of profit margins) contributing the most strength. Thus far the performance index has not been doing nearly as well.

In response to last year's painful recession, the inflation rate in Britain has continued to move lower. The rate was down to 4.2 percent in August.

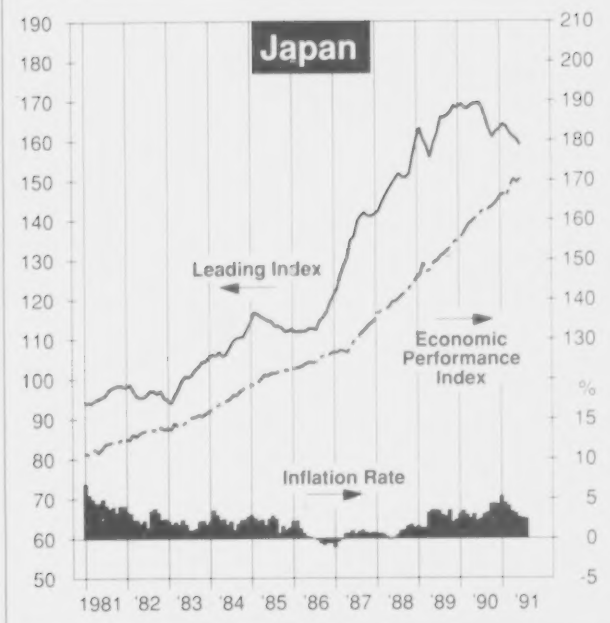




Modest Improvement

The leading index has been erratic month to month, but it has moved modestly higher since late last year. Similarly, the performance index has been climbing irregularly but persistently all year. Not all the economic news is favorable, however; for example, the unemployment rate remains above 10 percent.

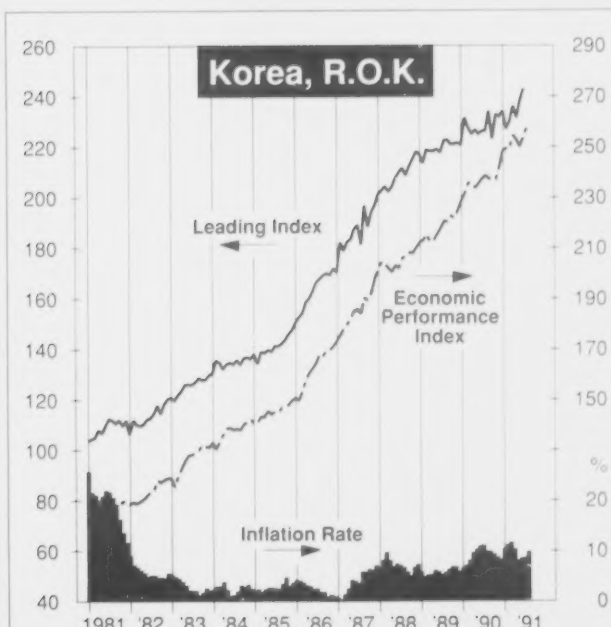
At 5.9 percent, the inflation rate remains the highest in Europe, but it has been working lower grudgingly.



Recession Risks Continue

The Japanese economy has stubbornly resisted the global recession these past two years, but whether or not it will continue to do so this fall and winter is a close call. Domestic demand appears to be declining, and the leading index dropped again in July, continuing the sizable slide that has been underway for over a year. Weakness among the components that make up the leading index has been most pronounced recently in factory working hours, business failures, housing starts, and profitability.

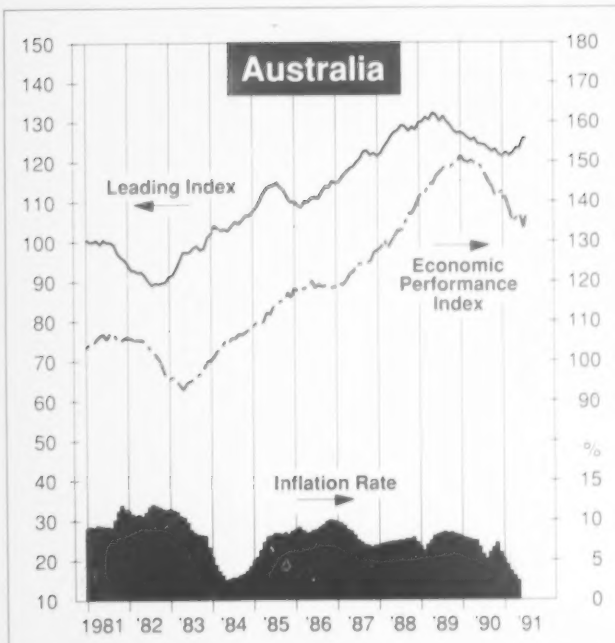
The inflation rate in Japan came down to 2.4 percent in August. This is half the rate of last January.



Unmistakable Uptrend

Both cyclical indexes have behaved erratically over the course of this year, but—despite government efforts to constrain economic activity (in an effort to curb imports, the trade deficit, and inflation)—the strong uptrend in the economy is unmistakable. Both of these indexes reached new record highs in August. Strength among the individual leaders was greatest in machinery orders.

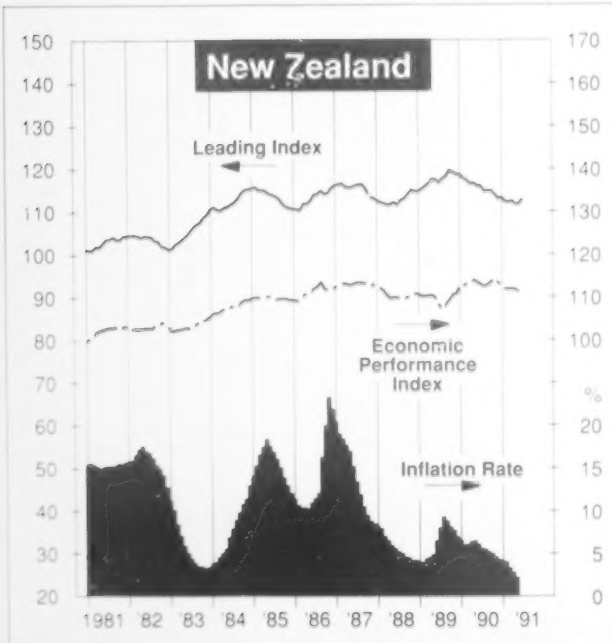
Inflation, after slowing a bit in the spring, appears to have accelerated again over the summer months. At 9.7 percent, Korean inflation is the highest of the eleven countries in this report.



Recovery, Finally?

The leading index hit bottom as long ago as January, and has been rising in fits and starts since then, but at a respectable pace. Stock prices and the money supply have been leading the way. For awhile the performance index continued to decline, but it showed signs of life in August and may now, finally, be ready to follow the leaders up the road to recovery.

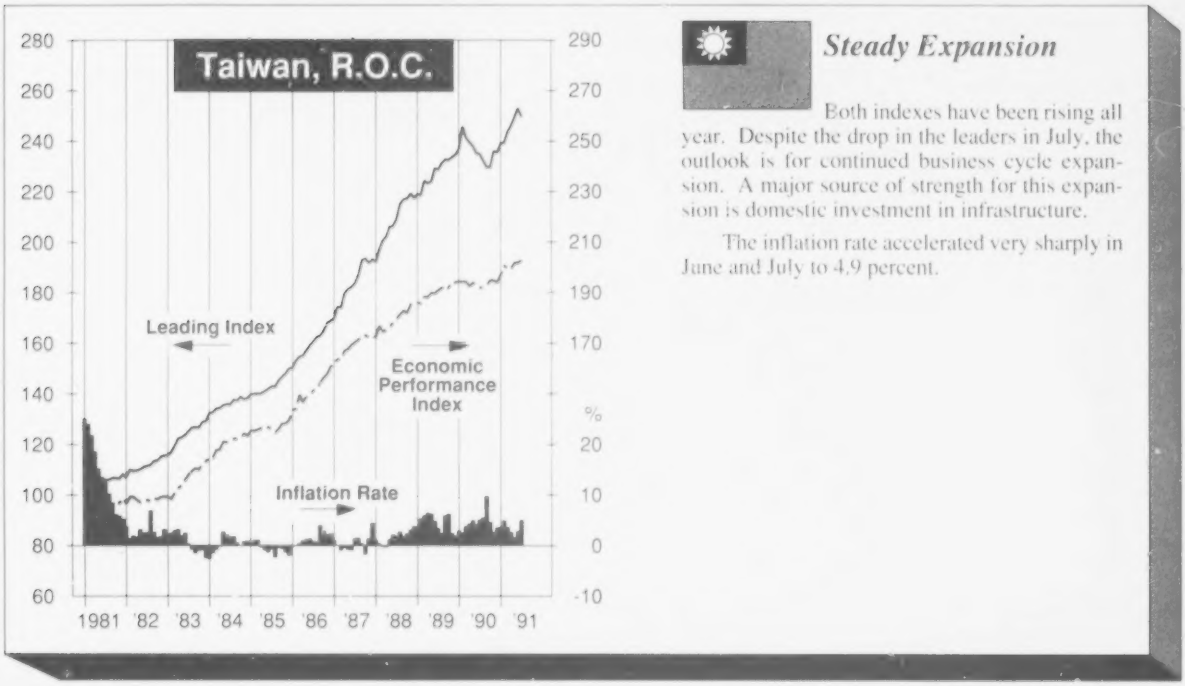
At the latest reading, inflation slowed further to 2.4 percent—by most standards a very unthreatening rate.



Downdrift Continues

Both the leaders and the performance index have been on a steady downdrift for the past year and a half. The leading index ticked up in July, but not by enough to be persuasive that its direction had changed. The best news for New Zealand, probably, is the favorable—albeit tentative—signals of recovery reported for Australia.

Another piece of good news for the Kiwi economy is inflation. At 2.1 percent, the rate is the slowest of all eleven nations.



Steady Expansion

Both indexes have been rising all year. Despite the drop in the leaders in July, the outlook is for continued business cycle expansion. A major source of strength for this expansion is domestic investment in infrastructure.

The inflation rate accelerated very sharply in June and July to 4.9 percent.

THE INTERNATIONAL ECONOMIC INDICATOR SYSTEM

This publication is designed to help readers monitor the ups and downs of the business cycle around the world. To this end, three statistical series are shown for each country. One is the inflation rate, calculated from the consumer price index compiled by the official statistical agency. The other two are cyclical indexes—an index of economic performance and a leading index. All of the cyclical indexes are based on 1980=100. The economic performance indexes are composites of such series as real GNP, industrial production, employment and sales—what analysts call "coincident" series, because they define the business cycle.

The leading indexes are composites of such series as new orders, construction contracts, corporate profits and stock prices—indicators that usually anticipate changes in production and employment by several months. Thus the indexes of economic performance tell us the current status of the business cycle, i.e., where we are, while the leading indexes tell us where the economy is headed.

Experience has shown that when the leading index begins to rise faster, it is a fairly safe rule that the economy will soon begin to rise faster too— typically after three or four months. When the leading index begins to rise more slowly or to decline, the economy is likely to follow suit shortly thereafter. (For details, see Phillip A. Klein and Geoffrey H. Moore, *Monitoring Growth Cycles in Market-Oriented Countries*, Ballinger Publishing Co. 1985.) Considerable variation in the length of the lead is to be expected, however. Constant monitoring is needed to make effective use of the system and to get early warnings of recessions and recoveries, changes in foreign trade flows, and new inflationary trends.

The indexes were developed by Geoffrey H. Moore and Philip A. Klein, and are maintained by the Center for International Business Cycle Research at the Columbia Business School. (The U.S. indexes used here differ slightly from the indexes reported monthly by the U.S. Department of Commerce.) To facilitate analysis the indexes are adjusted so their long-run growth rates are equal to those in real GNP in the country concerned. Growth rates are shown in the first column of the table on page 2.

David Chon, Editor

For more information:

For more about this indicator system and the availability of detailed data for each country please address inquiries to: Center for International Business Cycle Research, Columbia Business School, New York, NY 10027 - Telephone: 212-280-2916.

INDEXES, WORLDWIDE AND BY REGION, 1990-91

		11 Countries		10 Countries excl. U.S.		North America (2)		Europe (4)		Pacific Region (5)		11 Countries		10 Countries excl. U.S.		North America (2)		Europe (4)		Pacific Region (5)	
		Indexes, 1980=100										Growth Rates, Percent									
		Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.
Apr.	90	136	139	142	140	129	137	130	125	161	167	4	0	6	2	0	-2	6	1	8	3
May	90	137	140	142	140	129	137	131	125	162	168	4	1	6	2	1	-1	6	1	7	3
June	90	137	140	143	140	130	138	131	125	162	168	4	1	6	2	1	0	6	2	7	2
July	90	138	140	144	141	129	138	132	126	163	168	4	1	6	2	1	0	6	2	7	2
Aug.	90	138	140	144	140	129	138	133	126	164	167	3	0	5	1	0	0	6	2	6	0
Sept.	90	137	139	144	139	128	137	133	125	163	165	3	1	4	-1	-1	-1	4	1	5	-2
Oct.	90	137	138	144	138	127	135	133	125	164	162	2	-2	4	-2	-2	-3	4	1	5	-5
Nov.	90	137	136	144	137	126	133	133	125	164	161	1	-4	3	-3	-4	-5	4	0	4	-6
Dec.	90	137	136	145	138	125	133	133	125	165	162	0	-4	3	-2	-5	-6	3	0	4	-5
Jan.	91	137	136	146	138	124	132	134	125	167	163	0	-3	4	-2	-6	-6	4	0	5	-4
Feb.	91	136	137	146	138	123	132	134	126	167	164	0	-2	3	-1	-7	-5	3	1	5	-2
Mar.	91	136	137	146	139	122	132	134	126	166	163	1	-2	2	0	-7	-5	3	2	3	-2
Apr.	91	137	137	146	139	123	133	134	127	168	162	0	-2	3	0	-6	-3	2	2	5	-3
May	91	137	137	147	138	123	134	134	126	170	162	0	-1	3	-1	-5	-1	2	2	6	-3
June	91	137	138	147	138	123	135	136	127	169	161	1	0	3	0	-4	1	3	2	4	-3
July	91	138	138	148	138	123	136	136	127	170	160	1	1	3	-1	-3	3	3	2	4	-3
												Ten-Year Annual Growth Rate, Percent									
												1	3	3	3	3	3	2	2	4	4

INDEXES, ELEVEN COUNTRIES, 1990-91

		United States		Canada		West Germany		France		United Kingdom		Italy		Japan		Korea, R.O.K.		Australia		New Zealand		Taiwan, R.O.C.	
		Indexes, 1980=100																					
		Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.
Apr.	90	128	138	135	119	126	130	145	130	129	118	118	117	159	168	236	225	150	126	114	116	192	239
May	90	128	139	134	118	127	130	146	130	129	117	119	117	160	169	234	227	150	126	114	117	194	238
June	90	129	140	134	119	127	130	146	131	129	118	119	116	160	169	235	225	150	125	114	116	192	235
July	90	128	140	134	119	126	131	146	132	129	117	120	117	162	169	237	226	149	124	113	116	192	234
Aug.	90	128	140	134	119	129	132	148	132	128	117	120	116	162	168	238	226	147	124	113	115	192	232
Sept.	90	128	139	133	118	129	132	148	130	128	116	120	114	162	166	238	234	145	124	113	115	193	230
Oct.	90	127	137	132	118	130	133	149	130	128	116	119	115	163	163	237	223	144	123	114	115	195	229
Nov.	90	126	135	131	116	130	133	149	130	127	115	120	114	163	161	237	233	141	123	114	114	195	236
Dec.	90	124	134	130	115	131	134	150	129	127	115	121	114	164	162	242	232	142	122	113	113	194	235
Jan.	91	123	134	128	114	133	135	151	130	126	114	122	114	166	163	248	234	143	122	113	113	197	239
Feb.	91	122	134	128	112	133	136	151	131	126	114	122	115	166	164	249	227	141	122	112	112	201	239
Mar.	91	122	134	128	113	134	135	151	132	126	115	122	115	166	163	249	230	138	122	112	112	199	243
Apr.	91	122	135	129	114	134	134	152	133	124	116	120	116	168	162	255	234	135	122	112	112	199	246
May	91	122	136	129	115	134	133	152	134	123	116	122	116	170	161	253	236	136	124	112	112	202	249
June	91	122	137	129	115	135	134	152	135	125	116	124	116	169	160	250	232	137	123	111	112	202	253
July	91	123	138	129	116	136	133		135	125	117	125		170	159	254	238	134	126		113	203	249
Aug.	91	123	138						134							258	243	138	126				
		Growth Rates, Percent																					
Apr.	90	0	-2	2	-7	6	3	7	1	4	0	4	0	9	4	12	3	2	-5	3	-2	0	5
May	90	1	0	1	-7	8	3	7	2	4	-1	4	0	8	4	8	4	1	-4	4	-2	1	3
June	90	1	0	1	-6	6	3	7	4	3	0	4	-2	8	3	8	2	0	-5	2	-3	0	0
July	90	1	0	0	-5	8	4	8	5	2	1	4	-1	8	2	8	2	-2	-5	2	-3	-1	-1
Aug.	90	0	0	1	-3	8	4	7	3	1	-2	4	-2	8	0	8	2	-4	-4	0	-4	-1	-3
Sept.	90	1	-1	2	-3	8	4	6	1	1	-1	2	-5	6	3	6	8	-6	-4	0	-4	0	-5
Oct.	90	-2	-3	-2	-4	6	4	6	0	0	-2	2	-3	6	-6	4	-2	-7	-5	1	-4	2	-5
Nov.	90	-4	-5	-4	-5	6	4	5	0	-1	-4	2	-4	6	-8	3	6	-9	-4	2	-4	1	0
Dec.	90	-5	-5	-5	-7	5	5	5	-1	2	-4	3	-3	6	-6	6	4	-8	-5	0	-5	0	0
Jan.	91	-6	-6	-7	-8	8	5	6	0	3	-4	4	-3	6	-4	10	5	-6	-5	-1	-4	4	-2
Feb.	91	-7	-4	-7	-8	7	5	4	1	3	-4	3	-2	6	-3	9	-1	-8	-3	-2	-5	7	-2
Mar.	91	-7	-5	-6	-7	6	4	4	-2	3	-2	4	-1	4	-3	8	1	-10	-3	-2	-4	5	-6
Apr.	91	-6	-3	-4	-4	6	2	4	4	-6	0	0	1	6	-4	12	5	-12	-2	-2	-3	5	-8
May	91	-5	-1	-3	-2	5	0	4	4	-5	1	3	1	8	-4	8	6	-10	0	-2	-4	6	-10
June	91	-4	-1	-3	-1	6	1	3	5	-3	0	6	1	6	-4	5	1	-7	1	-2	-3	6	-12
July	91	-3	-3	-2	-0	5	0		5	-2	-2	6		6	-5	8	6	-10	-5		-1	6	-8
Aug.	91	-2	-3						4							9	9	-3	-5				
		Ten-Year Annual Growth Rate, Percent																					
1976-86		3	3	3	3	2	2	2	2	2	2	2	2	4	4	7	7	3	3	2	2	8	8